Analysis of financial statistics

This analysis begins with a description of the transactions of the various sectors in the calendar year 1968. There follows a discussion of the sector figures for the fourth quarter and some preliminary comment on the first quarter of 1969. The comment on the quarterly figures is based on seasonally adjusted series but, as emphasised in the December 1968 *Bulletin*,[1] the figures must be regarded with caution until more is known about the reliability of the adjustments used. The annual figures and the unadjusted quarterly figures are presented in Tables U and V at the end, where there are also notes on sources and definitions.

A discussion of changes in sterling bank deposits and in the banking sector's sterling lending in the first quarter of 1969 begins on page 159; this is based on unadjusted figures, which are set out in detail in Table W. Finally, there is a section dealing with changes in the money supply in the first quarter.

Sector financing: 1968

Background and summary

The devaluation of sterling in November 1967 was followed by the announcement in January 1968 of cuts in the growth of public expenditure. By this time the public were generally expecting increases in taxes in the Budget – which would mean price rises additional to those coming through as a result of devaluation – and there was a surge in consumer spending. The Budget on 19th March was indeed severe, but in the following months its impact was softened by a greater rise in personal income than had been foreseen and, with the rate of saving falling as well, personal consumption in the second half of the year turned out to be greater than forecast. Imports increased sharply early in the year and then remained stubbornly high; thus, although exports rose strongly, further measures to improve the balance of payments became necessary. In November, hire purchase controls were tightened, indirect taxation was increased, lending by banks and finance houses was brought under greater restraint, and an import deposit scheme was introduced.

Bank rate was reduced from 8% to 7½% just after the Budget and to 7% in September; over the year, however, it averaged 7½% – the highest ever.

According to preliminary national income statistics, the volume of gross domestic product was about 3½% higher than in 1967. The biggest increase in demand was for exports of goods and services (11% higher), but personal consumption – the largest category – rose by over 2%, and private fixed investment by 5%. Public sector current and capital spending increased by less than 1½%, and stockbuilding was not much greater than in 1967.

The balance of payments deficit on current account (the

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overseas sector's financial surplus in Table A) was slightly greater in 1968: imports rose more than exports and net invisible receipts combined. The public sector's financial deficit was considerably smaller. It follows that the private sector's financial surplus was reduced; but because there was a big change in the residual error in the national income accounts, the reduction may have been underestimated.

The figures of identified financial transactions, given in Table B, show bigger deteriorations in the financial positions both of industrial and commercial companies and of financial institutions than are shown in the national income accounts. The differences between the figures in Tables A and B for industrial and commercial companies are striking; financial statistics show a deterioration of about £785 million, whereas the national income accounts show an improvement of about £70 million. The one item known to be missing from the financial accounts – trade credit extended by companies to persons (a financial asset of companies) – may well have increased more in 1968 than in 1967, though hardly by as much as £855 million. When comparing 1968 with 1967, it seems probable that the broad picture presented by the financial statistics is the more reliable; however as neither set of figures is without deficiencies, this article discusses both.

A big increase in the liquid assets of the private sector (in this context excluding banks and discount houses) had been a feature of financial transactions in 1967. There was some further, though smaller, growth in such assets in 1968: money supply, for instance, rose by 6½%, compared with nearly 10% in 1967. The main reasons for the smaller increase were first that the public sector borrowed less, and second that there was a bigger outflow of funds from the private sector to overseas. Yet the private sector's liquid assets rose considerably, because it borrowed substantially more from the banks and realised a large amount of government debt, particularly gilt-edged stocks.

The gilt-edged market was weak for most of the year, for the balance of payments did not improve as much as expected; interest rates were, for much of the time, not expected to fall; and investors preferred equities to fixed interest securities. Persons, discount houses, and the group of accepting houses, overseas banks and other banks, all sold gilts; and although deposit banks and other financial institutions made some purchases, they were modest compared with 1967.

Equities boomed, enabling industrial and commercial companies to raise a very large amount through new issues. Indeed such issues were larger than issues of debentures, for the first time since 1961, and many of the latter took the form of convertible debentures. Investment trusts and unit trusts prospered, and bought heavily in the share market.

Table A
Financial surplus +/deficit —[a]
£ millions

	1967	1968
Overseas sector[b]	+ 399	+ 419
Public sector	−1,675	−1,094
Private sector	+1,156	+ 901
of which:		
Persons	*+ 722*	*+ 448*
Industrial and commercial companies	*+ 416*	*+ 484*
Financial institutions	*+ 18*	*− 31*
Residual error	+ 120	− 226

a As in the national income accounts.
b The deficit on current account in the balance of payments.

Table B
Identified financial transactions
£ millions
Increase in assets +/liabilities —

	1967	1968
Overseas sector[a]	+ 184	+ 507
Public sector	−1,640	−1,107
Private sector	+1,456	+ 600
of which:		
Persons	*+1,426*	*+1,544*
Industrial and commercial companies	*+ 178*	*− 609*
Financial institutions	*− 148*	*− 335*

a Long-term capital transactions and "monetary movements" in the balance of payments accounts.

Personal sector

The preliminary national income figures show personal consumption, at current prices, 6·7% greater than in 1967; but incomes after tax rose almost as fast (6·4%) so that, although the savings ratio fell (see Table C), the amount saved was slightly larger.[1] Capital transfer payments were greater because higher equity prices brought more capital gains tax and larger death duties. In addition, the sector (which includes unincorporated businesses) spent much more on fixed investment and on stockbuilding than in 1967. Thus its financial surplus, as derived from national income sources, was considerably smaller.

Table C
Personal saving
£ millions

		1967	1968
Disposable income		27,299	29,041
Consumption		25,345	27,045
	Saving	**1,954**	**1,996**
Savings ratio (per cent)		*7·2*	*6·9*

Persons were not able to borrow as much as in 1967. Though more hire purchase credit was extended (a significant tightening of terms control came only late in the year), less bank credit was available, and it would seem that borrowing in total played a much smaller part in financing consumption than in the previous year. People also borrowed rather less for house purchase; they obtained hardly any mortgages from local authorities, and only partly made good the shortfall by borrowing more from financial institutions.

Persons continued to run down their direct holdings of securities, and by rather more than in 1967; some investors may have used capital gains to finance their consumption. On the other hand there was an even larger rise in their indirect holdings through investment in life assurance and pension funds and purchases of unit trust units.

Table D
Personal sector
£ millions

	1966	1967	1968
Saving[a]	+2,081	+1,898	+1,878
Capital transfers (net)	− 164	− 163	− 234
Capital expenditure	− 993	−1,013	−1,196
Financial surplus	**+ 924**	**+ 722**	**+ 448**
Borrowing —			
For house purchase	− 766	− 980	− 946
Bank borrowing[b]	+ 60	− 138	− 43
Hire purchase debt	+ 102	+ 13	− 22
Other	− 67	− 45	− 30
	− 671	**−1,150**	**−1,041**
Acquisition of financial assets +			
Life assurance and pension funds	+1,214	+1,327	+1,475
Government stocks	− 14	− 227[c]	− 255
Company and overseas securities	− 582	− 735[c]	− 773
Unit trust units	+ 105	+ 84	+ 258
Bank deposits, notes and coin	+ 290	+ 778	+ 728
Building society shares and deposits	+ 726	+1,092	+ 772
Other	+ 244	+ 257	+ 380
	+1,983	**+2,576**	**+2,585**
Identified financial transactions	**+1,312**	**+1,426**	**+1,544**
Unidentified	− 388	− 704	−1,096

a After deducting stock appreciation.
b Other than for house purchase.
c Cash transactions only; exchanges of steel securities for government stocks are excluded.

Holdings of short-term assets rose much less than in 1967: persons lent more to local authorities and bought more tax reserve certificates,[2] but they placed less with building

1 It was, however, slightly smaller after deducting the appreciation of stocks held by unincorporated businesses – see Table D.
2 To some extent, in preparation for paying the special charge on investment income early in 1969.

societies and banks and withdrew more from national savings.

Total identified financial transactions, in contrast to the national income figures, suggest that persons had a larger surplus in 1968. Part of the £400 million increase in the unidentified item in the personal accounts may well represent greater borrowing in the form of trade credit taken from companies, for consumption was rising and other borrowing for consumption was restricted. Other deficiencies in the financial statistics may also have contributed to the increase. But the national income figures may not be telling the right story:[1] it is possible that persons did have a larger surplus.

All companies

A separate appropriation account is not yet available for industrial and commercial companies and it is therefore necessary, when looking at saving, to discuss figures for all companies, including banks and other financial institutions.

Preliminary national income figures show that gross trading profits, after deducting a particularly large amount of stock appreciation, rose by less than 3% last year; output rose quite strongly, but profit margins were, in most cases, undoubtedly narrower. Other income, however, increased sharply: the sterling value of overseas income was higher because of devaluation, and the general rise in interest rates will have swollen receipts of financial companies in particular.

Dividend payments had fallen in 1967, when all increases were discouraged, but limited increases were permitted in 1968, and payments rose. Other interest payments continued to rise, partly because banks and other financial institutions were paying higher rates on deposits.

Companies paid more in taxes than in 1967: though in many cases payments will have been related to the relatively low profits earned in 1966, they were not reduced

Table E

All companies

£ millions

	1966	1967	1968
Income			
Gross trading profits[a]	4,265	4,547	4,669
Other income[b]	2,771	2,872	3,352
	7,036	**7,419**	**8,021**
Allocation of Income			
Dividends on ordinary shares	1,687	1,587	1,676
Other interest etc.[c]	1,121	1,249	1,495
U.K. taxes on income	694	975	1,012
Profits due and taxes paid abroad	764	739	901
	4,266	**4,550**	**5,084**
Saving	**2,770**	**2,869**	**2,937**

a After deducting stock appreciation and payments of selective employment tax (net of refunds and premiums), but before allowing for capital depreciation.

b Rent, non-trading Income, and income from abroad.

c Including current transfers to charities.

1 It is considered that the persistently large negative unidentified item for persons is too big to be wholly explained by the absence of figures for trade credit from companies or by other deficiencies in the financial statistics. It may be that personal saving is consistently understated in the national income accounts.

in 1968 – as some still were in 1967 – by investment allowances.

In total, companies' current payments rose less than income, and their saving is estimated to have been somewhat greater. Virtually all the rise is here attributed to industrial and commercial companies.

Industrial and commercial companies

As well as saving more, these companies received much more through investment grants and, although their expenditure on both fixed investment and stockbuilding was greater than in 1967, their financial surplus, as shown in the national income accounts, was somewhat larger. As already noted, however, identified financial transactions tell a very different story – a swing from a net acquisition of assets approaching £200 million to net disinvestment of about £600 million.

Companies borrowed more, and acquired fewer financial assets. They borrowed substantially more from banks – much of it in the form of fixed rate finance for exports and borrowing in foreign currency for investment abroad – and from finance houses, and also raised more through capital issues. In addition, they received more finance from abroad, largely because profits retained in this country on behalf of overseas parent companies were greater.

Table F
Industrial and commercial companies
£ millions

	1966	1967	1968
Saving[a]	+2,486	+2,614	+2,677
Capital transfers (net)	+ 25	+ 225	+ 426
Fixed investment	−2,367	−2,369	−2,504
Increase in stocks	− 174	− 54	− 115
Financial surplus +/deficit −	**− 30**	**+ 416**	**+ 484**
Increase in liabilities —			
Overseas investment in U.K. companies	− 257	− 303	− 343
Bank borrowing	− 222	− 276	− 535
Capital issues[b]	− 579	− 447	− 534
Other borrowing	− 134	− 96	− 173
	−1,192	**−1,122**	**−1,585**
Acquisition of financial assets +			
Bank deposits, notes and coin	+ 167	+ 366	+ 223
Other liquid assets	− 109	+ 64	− 68
Investment abroad[c]	+ 482	+ 384	+ 553
Company securities	+ 292	+ 393	+ 311[d]
Other	+ 40	+ 93	− 43
	+ 872	**+1,300**	**+ 976**
Identified financial transactions	**− 320**	**+ 178**	**− 609**
Unidentified	+ 290	+ 238	+1,093

a After deducting stock appreciation.
b Including issues abroad.
c Including changes in short-term liabilities and claims.
d Of which – 35 reflects the sale to the public sector of British Electric Traction's bus interests.

Companies themselves invested more abroad, but bought fewer securities through take-overs and reduced their net claims on public corporations in the form of trade credit – possibly by insisting on prompter payment. Though they were obliged to make import deposits of over £70 million, they were still able to build up their liquid assets in total, but less so than in 1967; the addition to bank deposits and to holdings of notes and coin was some £150 million smaller, and they reduced their holdings of Treasury bills, tax reserve certificates and local authority debt.

The fact that almost all the financial figures point to a tighter position for companies – more borrowing from all sources, less cash paid out through take-overs, a reduction in trade credit owed to them by public corporations and a smaller rise in liquid assets – lends weight to the view that companies did not, in fact, have a larger financial surplus than in 1967. But the financial statistics may, to some extent, exaggerate the deterioration for, as suggested earlier, companies may have extended more trade credit (which is not recorded in the financial statistics) to persons.

Financial institutions other than banks

The total flow of funds to the other financial institutions was a little greater than in 1967. Within the total, however, the group of deposit-taking institutions had a difficult year, while the remainder continued to grow strongly.

The general rise in interest rates which accompanied devaluation made the placing of funds with building societies and savings banks relatively unattractive, and these institutions reacted only in part and slowly in 1968. The building societies raised their rates by ¼% (tax paid) in May, but their net receipts of funds still finished the year below the 1967 figure. Deposits with special investment departments of trustee savings banks were also lower, and those in Post Office investment accounts were only slightly higher (the interest rate was increased in January and again in October).

For most other institutions, it was a year of considerable growth. The investment trusts raised more than ever before through capital issues, and unit trusts' sales of units were by far the largest ever. Saving through life assurance and pension funds, which is for the most part contractual and unaffected by short-run considerations, continued to grow.

The institutions undoubtedly helped to swell the boom in equities; not only did those specialising in the share market – investment trusts and unit trusts – invest more, but insurance companies and pension funds increased the proportion of their new money going into equities.

The institutions bought only a very moderate amount of gilt-edged, partly because yields generally rose less than those on local authority mortgages. Building societies, which were running down their liquidity as they increased their lending for house purchase, sold more gilts than local authority mortgages, while the special investment departments of trustee savings banks bought fewer gilts than in 1967, and invested more in local authority mortgages. The other groups of institutions, too, generally preferred local authority mortgages to gilts. In total, the institutions bought rather more debentures than in 1967, although there were fewer new issues and only a relatively small rise in yields; they may well have been attracted by the many convertible issues. Their holdings of preference shares fell, partly because of redemptions.

The institutions increased their short-term assets by less than in 1967: their bank deposits rose by only half as much, but they placed more at short term with local authorities.

Table G
Financial institutions other than banks
£ millions

	1966	1967	1968
Increase in liabilities —			
Life assurance and pension funds	—1,214	—1,327	—1,475
Building society shares and deposits	— 724	—1,099	— 774
Other deposits	— 222	— 66	— 87
Capital issues	— 106	— 67	— 131
Unit trust units	— 105	— 84	— 258
Bank borrowing etc.	+ 53	— 73	— 37
	—2,318	**—2,716**	**—2,762**
Increase in financial assets +			
Short-term assets	+ 99	+ 180	+ 113
Government stocks	+ 122	+ 513[a]	+ 48
Company and overseas securities:			
Ordinary shares	+ 403	+ 490[a]	+ 727
Debentures	+ 381	+ 280[a]	+ 292
Other[b]	+ 14	+ 5	— 30
Longer-term lending to local authorities	+ 153	+ 140	+ 107
Loans for house purchase	+ 728	+ 857	+ 915
Hire purchase claims	— 72	— 30	+ 5
Other lending	+ 238	+ 76	+ 182
	+2,066	**+2,511**	**+2,359**

a Cash transactions only; exchanges of steel securities for government stocks are excluded.
b Preference shares; and overseas government, provincial and municipal securities.

Public sector

The reduction in the public sector's financial deficit was mainly attributable to the central government, whose revenue was much greater because of higher taxes and the rise in personal incomes and expenditure. At the same time, public corporations had a smaller financial deficit, mainly because they raised their prices and had a greater trading surplus. Local authorities had a slightly larger current surplus, but they continued to increase their fixed investment expenditure, and their financial deficit was larger.

The public sector lent less to other sectors in 1968, mainly because local authorities advanced much less to persons for house purchase. And the Government received £77 million from import deposits at the end of the year. These transactions, together with the reduction in its financial deficit, meant that the public sector's borrowing requirement was, at £1,150 million, nearly £700 million smaller than in 1967.

External transactions provided more sterling finance for the Government than in 1967, not primarily because of any change in the balance of payments on current account – the deficit, as has been noted, was only slightly greater – but because of a larger outflow of short-term funds from the private sector, particularly from the banks.[1] Local

1 There was also a big swing to a negative balancing item in the balance of payments, mainly, it would seem, because the figures for arrivals and shipments of goods (included in the current account), which were affected by dock strikes and other distortions, present a different picture from the payments and receipts included in financial statistics.

authorities, by contrast, repaid some £60 million of debt to overseas.

The public sector had therefore to raise very much less through domestic borrowing – only some £50 million, compared with over £1,300 million in 1967. Local authorities borrowed rather less from the market (because they took considerably more from the central government through the Public Works Loan Board) and public corporations repaid debt to banks and to companies. (Despite their distinctly smaller financial deficit, the corporations borrowed only slightly less from the central government.) Nevertheless, the central government was still able to repay over £400 million of domestic debt, after borrowing nearly £650 million in 1967. Domestic residents other than banks reduced their holdings by some £270 million; most of the fall was in gilts, but national savings and Treasury bills were also run down. This left repayments of nearly £150 million to the banking sector – the first reduction in the banks' holdings of government debt since 1964.

Table H
Public sector
£ millions

	1966	1967	1968
Financial surplus + /deficit –			
Central government	+942	+ 468	+ 856
Local authorities	–890	–1,070	–1,153
Public corporations	–840	–1,073	– 797
Financial deficit	**–788**	**–1,675**	**–1,094**
Lending etc.	**+140**	**+ 200**	**+ 118**
Import deposits received (net)	—	—	**– 75**[a]
External transactions[b]			
(increase in liabilities –)			
Central government	–456	– 494	–1,157
Local authorities	+ 43	– 6	+ 58
	–413	**– 500**	**–1,099**
Domestic borrowing –[b]			
Central government:			
From banks	–121	– 231	+ 140
Other	+ 56	– 409	+ 266
Local government[c]	–446	– 687	– 644
Public corporations[d]	– 86	– 13	+ 187
	–597	**–1,340**	**– 51**
Identified financial transactions	**–870**	**–1,640**	**–1,107**
Unidentified	+ 82	– 35	+ 13

a The central government received £77 million, and public corporations deposited £2 million.
b These two items, added together, give the borrowing requirement of the public sector.
c Including the Northern Ireland central government.
d Including bank borrowing by central government trading bodies.

Banking sector

While bank lending to the central government and to public corporations fell, the banking sector increased its lending to local authorities, although by less than in 1967. Within the total, the deposit banks' lending to local authorities fell by nearly £100 million, but lending by the other banks collectively increased by more than £300 million, partly because they preferred local authority temporary debt to gilt-edged stocks, which they sold to the extent of nearly £100 million.

Bank lending to the private sector increased more than in 1967, although restrictions were in force throughout the year and were tightened in May and November. The banks substantially increased their fixed rate lending for exports and for shipbuilding and their lending in foreign currency, which mostly finances direct and portfolio investment abroad; their call money also rose.

The banks' net claims on the overseas sector also rose much more than in 1967; net sterling claims again increased – lending, much of it at a fixed rate for exports, rose and deposit liabilities fell – but net foreign currency claims were little changed, whereas they had fallen in 1967.

Domestic bank deposits rose less than in the previous year, but the increase was still very large.

Table J
Banking sector
£ millions

	1966	1967	1968
Increase in assets +			
Lending to the public sector:			
Central government	+121	+ 231	– 140
Local government[a]	+ 84	+ 347	+ 261
Public corporations etc.[b]	+ 15	– 7	– 65
Lending to the private sector	+111	+ 568	+ 696
Net claims on the overseas sector	+264	+ 89	+ 248
	+595	**+1,228**	**+1,000**
Increase in liabilities –			
Domestic deposits	–470	–1,184	– 935
Capital issues[c]	+ 2	+ 13	+ 3
	–468	**–1,171**	**– 932**

a Including the Northern Ireland central government.
b Including advances to central government trading bodies.
c Net of purchases by banks of securities of other banks.

Table K
Financial surplus + /deficit –[a]
£ millions
Seasonally adjusted

	1968 3rd qtr.	1968 4th qtr.
Public sector	–191	–87
Persons	+155	+ 6
Industrial and commercial companies	+127	–61
Financial institutions	– 22	+ 7
Overseas sector[b]	+ 73	+77
Residual error	–142	+58

a As in the national income accounts.
b The deficit on current account in the balance of payments.

Fourth quarter of 1968

Gross domestic product continued to rise in volume in the fourth quarter, the impetus coming from personal consumption, stockbuilding and private fixed investment. Public sector spending was little changed and exports of goods and services showed no improvement.

The public sector's financial deficit, as derived from national income figures, was less than half that of the third quarter, and financial statistics suggest that there may even have been a surplus. The personal sector's surplus almost vanished, and industrial and commercial companies collectively moved into deficit. The overseas sector's surplus was little changed. There was a big change in the residual error in the national income accounts, perhaps because the improvement in the public sector has been underestimated.

The smaller public sector deficit tended to reduce liquidity in the private sector (for this purpose excluding the banks), as did a renewal of the outflow of private long-term investment overseas. Liquidity was, however, helped by increased private borrowing from banks, and by heavy sales of gilt-edged stocks, although most of these sales were, in any case, of very short-dated stocks.

Persons increased their liquid assets much less than in the third quarter, mainly because of the fall in their financial surplus, but also because they found it difficult to borrow: otherwise their sales of gilts would have increased their more liquid assets substantially. Industrial and commercial companies, on the other hand, were able to borrow a substantial amount, and to build up their liquid assets, after running them down in the third quarter. Financial institutions other than banks also increased their short-term assets, after reducing them in the previous quarter.

The gilt-edged market was generally weak. Persons and the discount houses sold large amounts, banks (as a whole) were also sellers, and there were net sales even by the other financial institutions. These institutions, however, bought fewer equities than in the previous quarter – although capital issues were almost as large – and overseas firms also bought fewer U.K. shares. It follows that personal sales of equities were smaller.

Personal sector

Incomes rose, but consumption increased sharply and saving fell. At the same time, persons (which, as noted earlier, include unincorporated businesses) spent more on fixed investment and stockbuilding and their financial surplus dropped to almost nothing.

Persons found it hard to borrow money: bank overdrafts became increasingly difficult to obtain and building societies were less willing to lend because their liquidity had fallen very low. Unincorporated businesses (stockbrokers, for example) repaid call money to the banks.

The fall in their surplus and the difficulty of borrowing meant that persons had less to invest in financial assets. As already noted they sold gilts heavily and, although they sold fewer company securities than in the third quarter, their remaining – generally more liquid – assets rose much less. They placed more with building societies, but their bank deposits barely increased.

Table L
Personal sector
£ millions
Seasonally adjusted[a]

	1968		
	2nd qtr.	3rd qtr.	4th qtr.
Financial surplus	**+304**	**+155**	**+ 6**
Borrowing —			
For house purchase	−240	−236	−190
Bank borrowing[b]	− 38	− 80	+ 54
Other	+ 40	+ 3	− 30
	−238	**−313**	**−166**
Acquisition of financial assets +			
Life assurance and pension funds	+350	+350	+370
Government stocks	−126	+ 50	−177
Other securities[c]	−151	−140	− 39
Other	+598	+542	+385
	+671	**+802**	**+539**
Identified financial transactions	**+433**	**+489**	**+373**
Unidentified	−129	−334	−367

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.
b Other than for house purchase.
c Including unit trust units.

Table M
All companies
£ millions
Seasonally adjusted[a]

	1968	
	3rd qtr.	4th qtr.
Gross trading profits	1,279	1,302
Other income	842	873
	2,121	**2,175**
Dividends and interest	802	815
U.K. taxes on income	250	246
Profits due, and taxes paid, abroad	220	257
	1,272	**1,318**
Saving	**849**	**857**

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.

All companies

Gross trading profits rose by 2%, and the increase would have been greater but for the September increase in selective employment tax, which was not fully reflected in refunds until early in 1969. Other income continued to rise. But current expenditure, notably profits due and taxes paid abroad, was also higher, and saving rose only a little.

Industrial and commercial companies

These companies saved as much as in the third quarter, but spent more on fixed investment and stockbuilding, thus moving into financial deficit. Meanwhile, companies had to find some £70 million of import deposits.

They borrowed heavily, particularly from banks, from which they took more in foreign currency and also in sterling at fixed rates for exports and for shipbuilding. They also raised rather more through capital issues, which were already high. Some of the borrowing seems to have gone into liquid assets, which rose, after having fallen in the third quarter. Companies seem also to have improved their liquid position by prevailing upon public corporations to settle their accounts more promptly. These moves to increase liquidity no doubt reflected the companies' awareness of a tighter period ahead, when they would be spending more on fixed investment, paying larger amounts of corporation tax, and making import deposits.

Table N
Industrial and commercial companies
£ millions
Seasonally adjusted[a]

	1968		
	2nd qtr.	3rd qtr.	4th qtr.
Saving	+786	+795	+795
Capital transfers	+106	+105	+111
Capital expenditure	−780	−773	−967
Financial surplus	**+112**	**+127**	**− 61**
Increase in liabilities —			
Bank borrowing	−191	+140	−359
Capital issues	−121	−154	−167
Other	− 37	− 47	− 57
	−349	**− 61**	**−583**
Acquisition of financial assets +			
Liquid assets	+185	−249	+175
Import deposits	—	—	+ 73
Other	+163	+ 49	+104
	+348	**−200**	**+352**
Identified financial transactions	**− 1**	**−261**	**−231**
Unidentified	+113	+388	+170

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.

Financial institutions other than banks

The flow of funds to the institutions was much greater than in the third quarter: investment trusts' capital issues fell away from an exceptionally high figure, but the building societies took in more money.

As a whole the institutions increased their short-term assets substantially, but invested less than in the previous quarter in securities – they sold gilts and bought fewer equities and debentures. Half the rise in short-term assets was attributable to building societies, which by lending less for house purchase sought to raise their liquidity ratios after nine months of decline. Unit trusts, insurance companies and private pension funds also built up short-term assets and invested less in the security markets – even the insurance companies sold gilts.

Table O
Financial institutions other than banks
£ millions
Seasonally adjusted[a]

	1968		
	2nd qtr.	3rd qtr.	4th qtr.
Increase in liabilities —			
Life assurance and pension funds	−350	−350	−370
Deposits	−195	−178	−315
Capital issues	− 13	− 61	− 31
Other	−137	+ 5	− 17
	−695	**−584**	**−733**
Increase in financial assets +			
Short-term assets	+ 20	− 12	+133
Government stocks	+ 16	+ 22	− 16
Ordinary shares	+210	+184	+146
Debentures etc.	+ 82	+ 70	+ 65
Loans for house purchase	+229	+217	+185
Other	+ 35	+ 43	+ 35
	+592	**+524**	**+548**

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.

Public sector

All three components of the public sector contributed to the reduction in its deficit. The need for domestic finance was further reduced by the Government's receipt of £77 million of import deposits and by a large receipt of sterling from external transactions, for, although the balance of payments on current account was little changed, the net outflow of private long-term capital was resumed.

Table P
Public sector
£ millions
Seasonally adjusted[a]

	1968		
	2nd qtr.	3rd qtr.	4th qtr.
Financial deficit	**−330**	**−191**	**− 87**
Lending etc. +	**− 22**	**+ 25**	**+ 67**
Import deposits	**—**	**—**	**− 75**[b]
External transactions (increase in liabilities —)	**−377**	**+144**	**−247**
Domestic borrowing —			
Central government	+145	−261	+337
Local government[c]	−221	−153	−127
Public corporations[d]	+ 14	− 54	+ 90
Identified financial transactions	**−461**	**−299**	**+ 45**
Unidentified	+131	+108	−132

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.
b The central government received £77 million, and public corporations deposited £2 million.
c Including the Northern Ireland central government.
d Including bank borrowing by central government trading bodies.

There was, in fact, a reduction in the public sector's domestic debt: local authorities borrowed less in the market, public corporations repaid trade credit to companies, and the Government repaid nearly £350 million of domestic debt, half of it to holders other than banks, through large official purchases of gilts.

Banking sector

The banking sector's holdings of government debt fell by some £175 million. Holdings of local authority debt, which had risen each quarter since the middle of 1967, also declined. But lending to the private sector rose sharply – by more than in the previous six months. As noted earlier, this was partly fixed rate finance for exports and shipbuilding, and also included a sizable rise in lending in foreign currency, another category outside the credit ceilings. But restricted lending also increased and the banks as a whole had a long way to go to come down to the figures that they had been asked to reach by March 1969.

The banks' net claims on overseas, which had fallen in the third quarter, also rose. Almost all the increase was in sterling transactions: deposits fell and the banks lent slightly more.

Domestic deposits rose much more than in the third quarter.

Table Q
Banking sector
£ millions
Seasonally adjusted[a]

	1968		
	2nd qtr.	3rd qtr.	4th qtr.
Increase in assets +			
Central government debt	+ 5	+274	−174
Other public sector debt	+ 50	+156	+ 5
Lending to the private sector	+357	− 72	+300
Net claims on overseas	+ 58	− 93	+ 87
	+470	**+265**	**+218**
Increase in liabilities −			
Domestic deposits	−445	−180	−263
Capital issues[b]	− 5	− 11	+ 16

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.
b Net of purchases by banks of securities of other banks.

First quarter of 1969

The measures taken in November 1968, together with those taken earlier, produced a large surplus in the central government's net balance in the first quarter of 1969. As the balance of payments on current account seems to have been little changed, the private sector's financial position most probably deteriorated. The official policy of severe credit restraint was reinforced by an increase in Bank rate from 7% to 8% on 27th February. The gilt-edged market was weak, and the authorities allowed yields to rise. Equity prices faltered after January.

So far as the personal sector was concerned, the main impact of the squeeze seems to have been on consumption, which fell. However, persons' holdings of liquid assets[1] may

1 Not all the figures are available yet.

Table R
Central government/banks
£ millions
Seasonally adjusted[a]
Increase in liabilities —

	1968 4th qtr.	1969 1st qtr.
Central government net balance (surplus)	+ **93**	+**383**
External transactions	−242	+ 79
Debt held by:		
Banking sector	+174	+220
Other private sector	+161	+ 84
Banking sector		
Government debt	−174	−220
Other public sector debt	+ 5	+ 57
Private sector debt	+300	+ 82
Net claims on overseas	+ 87	+197
	+**218**	+**116**
Domestic deposits	−263	− 16
Capital issues[b]	+ 16	− 16

a Because the seasonal adjustments cannot be applied with certainty no significance should be attached to the apparent precision of the figures.
b Net of purchases by banks of securities of other banks.

have risen by somewhat less than in the previous quarter. They borrowed more from building societies, but repaid more to the banks than in the fourth quarter.

Companies not only paid a large amount of corporation tax, but had also to make import deposits. They raised somewhat more through capital issues than in the fourth quarter, but were not able to borrow as much from the banks. Their liquid assets seem to have fallen quite sharply.[1]

Government receipts were swollen by the increases in purchase tax and excise duties announced in November, as well as by import deposits, higher corporation tax and the special charge on investment income. Meanwhile, the Government lent less to local authorities and public corporations. Thus, it was possible to reduce government debt substantially – by almost £400 million.

Although, as already noted, the balance of payments on current account was little changed, long-term capital transactions showed some improvement, and there was an inflow of short-term funds to the private sector.[2] Consequently, the Government's external transactions required sterling financing. Even so, there was a big reduction in domestic holdings of government debt.

The public's holdings of notes increased (partly in readiness for Easter). But domestic investors other than banks realised nearly £200 million of gilt-edged stocks. This still left the Government repaying over £200 million of debt to the banking sector.

While the banks' holdings of government debt thus fell substantially, they increased their lending to local authorities. Their lending to the private sector also rose, but by much less than in the fourth quarter. Domestic deposits, most unusually, hardly increased; this reflected the extent to which monetary conditions tightened.

Banking sector: changes in net sterling deposits and in sterling assets in the first quarter of 1969

The figures in this part of the analysis are not seasonally adjusted. A run of quarterly figures, together with total changes in the last few financial years, is given in Table W.

Total sterling deposits with the banks fell by £475 million – much more than a year earlier. Almost all of the fall was in domestic deposits.

Personal deposits fell, for the first time since the March quarter of 1964; moreover, in 1964 persons were buying gilt-edged stocks, whereas in the first quarter of 1969 they were almost certainly heavy sellers of gilts. Although, as noted above, persons reduced their spending on consumption, their liquid assets still seem to have risen rather slowly.

Sterling deposits of industrial and commercial companies fell by almost twice as much as a year earlier. As mentioned on page 156, companies had built up their liquid assets in the fourth quarter of 1968, in preparation for the tight conditions which they believed must come in the first quarter, so it was to be expected that their bank deposits would now show a big fall.

1 Not all the figures are available yet.
2 Partly, it seems, short-term credit granted to U.K. companies (see page 141).

Financial institutions did not reduce their deposits with banks as much as in earlier years, probably because of uncertainty in the security markets.

Table S
Changes in net sterling deposits with the banking sector
£ millions[a]

	1968 1st qtr.	1969 1st qtr.
Private sector, all deposits:		
Persons	+ 5	− 20
Industrial and commercial companies	−250	−435
Financial institutions	− 65	− 5
	−310	−460
less foreign currency deposits	− 15	+ 20
Private sector sterling deposits	−295	−480
Public sector deposits	− 40	+ 50
Total domestic sterling deposits	**−335**	**−430**
Overseas sterling deposits	− 25	− 45
Total sterling deposits	**−360**	**−475**

a Rounded to nearest £5 million.

In total, the banks' sterling assets fell by rather more than a year earlier; the fall owed more to the drop in sterling deposits, and less to switching out of sterling and into foreign currency by the banks, than in the first quarter of 1968.

Table T
Changes in sterling assets of the banking sector
£ millions[a]

	1968 1st qtr.	1969 1st qtr.
Sterling lending to the private sector:		
Persons:		
Advances	+ 25	− 65
Call money	+ 10	− 15
Other private	+285	+395
Total private sector	**+320**	**+315**
Sterling lending to the overseas sector	+ 60	− 5
Central government debt	−860	−995
Local government debt[b]	+135	+210
Lending to public corporations	− 95	− 10
Total sterling assets	**−440**	**−485**
Total sterling deposits	−360	−475
Difference between sterling assets and sterling deposits	+ 80	+ 10
Of which switching out of sterling into foreign currency +	*+ 80*	*+ 35*

a Rounded to nearest £5 million.
b Including the Northern Ireland central government.

Sterling lending to the private sector increased by about as much as a year earlier; lending to persons fell, but lending to industrial and commercial companies rose more this year than last. Sterling lending to overseas fell slightly, and there was a very big reduction in the banks' holdings of government debt as a result of the massive surplus on the central government's net balance. By contrast, the banks increased their holdings of local authority debt considerably, and by more than a year earlier.

Money supply in the first quarter of 1969

While domestic sterling deposits fell by £430 million in the first quarter, foreign currency deposits held by U.K. residents rose by £20 million, and the public's holdings of notes and coin by £55 million, so that the total money supply – as defined in *Financial Statistics* – fell by £355 million before seasonal adjustment.

This was the biggest fall so far recorded in the quarterly figures.[1] It was clearly brought about by the central government's surplus, which owed much to the November measures. The fall occurred in spite of an increase in bank lending to the private sector, large sales of gilts by investors other than banks and, it appears, some inflow of short-term funds from overseas to companies.

Over the financial year 1968/69 money supply rose by $6\frac{1}{2}$%; this compares with a rise of $9\frac{1}{2}$% in 1967/68. By far the most important reason for the smaller rise was the big change in the Government's borrowing requirement (the central government's net balance): in 1967/68 the borrowing exceeded £1,300 million, but in 1968/69 the Government were able to repay over £250 million of debt. This very big change might have been expected to cause the money supply to fall. So too might the continued balance of payments deficit, though this was much smaller than in 1967/68. The fact that the money supply rose, and by as much as $6\frac{1}{2}$%, was due partly to the fact that bank lending to the private sector, although rising less than in 1967/68, still increased substantially and partly to large reductions in the gilt-edged holdings of domestic investors other than the banks.

1 The figures go back only to 1963, however.

Table U

Sector financing: annual figures

£ millions

	Line	Public sector 1966	Public sector 1967	Public sector 1968	Overseas sector 1966	Overseas sector 1967	Overseas sector 1968
Financial surplus +/deficit −							
Saving	1	+2,272	+2,135	+2,974			
Taxes on capital and capital transfers	2	+ 139	− 62	− 192			
less:							
Gross fixed capital formation at home	3	−3,133	−3,639	−3,819			
Increase in value of stocks and work in progress	4	− 66	− 109	− 57			
Financial surplus +/deficit −	5	**− 788**	**−1,675**	**−1,094**	**− 5**	**+399**	**+ 419**
Changes in financial assets and liabilities							
assets increase+/decrease − liabilities increase −/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	− 44	+ 19	− 128			
Life assurance and pension funds	7						
Government loans	8	+ 74	+ 45	+ 41	− 61	− 39	− 7
Gold and foreign exchange reserves[a]	9	− 282	− 188	− 114	+ 282	+188	+ 114
Government transactions with I.M.F.	10	+ 17	+ 321	− 526	− 17	−321	+ 526
Miscellaneous investment overseas (net)	11	+ 15	− 54[b]	+ 202[b]	− 183	+ 12[b]	− 332[b]
Notes and coin	12	− 148	− 152	− 186			
Bank deposits[c]	13	+ 13	+ 12	− 34	+ 759	+732	+2,626
Deposits with other financial institutions	14				+ 31	− 78	− 104
National savings	15·1	+ 202	+ 43	+ 93			
Tax reserve certificates	15·2	− 79	− 36	− 21			
Import deposits	15·3			− 75			+ 2
Bank lending[c]	16	− 15	+ 7[d]	+ 65	−1,020	−816	−2,863
Hire purchase debt	17	− 17	− 10	+ 7			
Loans for house purchase	18	+ 63	+ 83	+ 11			
Other loans	19	− 126	− 20	+ 127			
Marketable government debt:							
Treasury bills	20	+ 10	− 514	− 548	+ 221	+519	+ 706
Stocks[e]	21	− 217	− 529	+ 506	− 10	+ 10	− 16
Local authority debt	22	− 389	− 672	− 582	− 43	+ 6	− 58
U.K. company and overseas securities:							
Capital issues	23				+ 14	−107	− 233
Other transactions[e]	24	+ 53	+ 5	+ 55	+ 30	+ 78	+ 146
Unit trust units	25						
Identified financial transactions	26	**− 870**	**−1,640**	**−1,107**	**+ 3**	**+184**	**+ 507**
Unidentified	27	**+ 82**	**− 35**	**+ 13**	**− 8**	**+215**	**− 88**
Total = Financial surplus +/deficit −	28	**− 788**	**−1,675**	**−1,094**	**− 5**	**+399**	**+ 419**

a See footnote *c* to Table 1 of the annex.
b See footnote *d* to Table 18 of the annex; (but also see footnote *c* below).
c Excluding, so far as they can be estimated, changes due to the revaluation of foreign currency assets and liabilities (arising from the devaluation of sterling).
d Excluding the transfer to the public sector of the steel industry's outstanding borrowing at the time of re-nationalisation.
e The figures are for cash transactions only, so those for 1967 exclude the exchange of securities of the re-nationalised steel companies for government stock (see June 1968 *Bulletin*, page 133, Table L).

	Private sector												
	Persons			Industrial and commercial companies			Banks			Other financial institutions			
	1966	1967	1968	1966	1967	1968	1966	1967	1968	1966	1967	1968	Line
	+2,147	+1,954	+1,996	+2,734	+2,761	+3,202	+284	+255	+260				1
	− 164	− 163	− 234	+ 25	+ 225	+ 426							2
	− 968	−1,002	−1,120	−2,367	−2,369	−2,504	−235	−237	−291				3
	− 91	− 67	− 194	− 422	− 201	− 640							4
	+ 924	**+ 722**	**+ 448**	**− 30**	**+ 416**	**+ 484**	**+ 49**	**+ 18**	**− 31**				5
							+ 44	− 19	+ 128				6
	+1,214	+1,327	+1,475							−1,214	−1,327	−1,475	7
	− 2	− 3	− 3	− 15	− 4	− 35				+ 4	+ 1	+ 4	8
													9
													10
				+ 176	+ 31	+ 101				− 8	+ 11	+ 29	11
	+ 37	+ 62	+ 71	+ 29	+ 63	− 19	+ 82	+ 27	+ 134				12
	+ 253	+ 716	+ 657	+ 138	+ 303	+ 242	−1,229	−1,916	−3,561	+ 66	+ 153	+ 70	13
	+ 911	+1,249	+ 941	+ 4	− 6	+ 24				− 946	−1,165	− 861	14
	− 202	− 43	− 93										15·1
	+ 17	+ 9	+ 54	− 16	+ 29	− 23	+ 85	− 10	− 8	− 7	+ 8	− 2	15·2
						+ 73							15·3
	+ 60	− 138	− 43	− 222	− 276[d]	− 535	+1,148	+1,297	+3,417	+ 49	− 74	− 41	16
	+ 102	+ 13	− 22	− 13	+ 27	+ 10				− 72	− 30	+ 5	17
	− 766	− 980	− 946				− 25	+ 40	+ 20	+ 728	+ 857	+ 915	18
	− 54	− 23	− 26	− 69	− 23	− 254	+ 3	+ 1	—	+ 246	+ 65	+ 153	19
				− 16	—	− 37	− 209	—	− 111	− 6	− 5	− 10	20
	− 14	− 227	− 255				+ 119	+ 233	− 283	+ 122	+ 513	+ 48	21
	+ 233	+ 115	+ 249	− 81	+ 41	− 32	+ 81	+ 346	+ 261	+ 199	+ 164	+ 162	22
				− 575	− 415	− 482	− 20	− 1	− 24	− 106	− 67	− 131	23
	− 582	− 735	− 773	+ 340	+ 408	+ 358	+ 48	+ 59	+ 95	+ 798	+ 775	+ 989	24
	+ 105	+ 84	+ 258							− 105	− 84	− 258	25
	+1,312	**+1,426**	**+1,544**	**− 320**	**+ 178**	**− 609**	**+ 127**	**+ 57**	**+ 68**	**− 252**	**− 205**	**− 403**	26
	− 388	**− 704**	**−1,096**	**+ 290**	**+ 238**	**+1,093**	**+174**	**+166**	**+304**				27
	+ 924	**+ 722**	**+ 448**	**− 30**	**+ 416**	**+ 484**	**+ 49**	**+ 18**	**− 31**				28

Table V

Sector financing: quarterly figures

£ millions
Not seasonally adjusted

	Line	Public sector 1968 3rd qtr.	Public sector 1968 4th qtr.	Public sector 1969 1st qtr.	Overseas sector 1968 3rd qtr.	Overseas sector 1968 4th qtr.	Overseas sector 1969 1st qtr.
Financial surplus +/deficit —							
Saving	1	+434	+628				
Taxes on capital and capital transfers	2	— 49	— 39				
less:							
Gross fixed capital formation at home	3	—916	—967				
Increase in value of stocks and work in progress	4	— 27	+ 1				
Financial surplus +/deficit —	5	**—558**	**—377**		**+108**	**+ 44**	
Changes in financial assets and liabilities							
assets increase +/decrease — liabilities increase —/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 13	— 67	+ 86			
Life assurance and pension funds	7						
Government loans	8	+ 11	+ 23		— 6	— 10	
Gold and foreign exchange reserves	9	+ 14	—123	+ 20	— 14	+123	— 20
Government transactions with I.M.F.	10	+ 32	+ 35	+127	— 32	— 35	— 127
Miscellaneous investment overseas (net)	11	+187	+113		—132	—187	
Notes and coin	12	— 4	—210	+ 98			
Bank deposits	13	+ 2	+ 9	+ 48	+397	+544	+1,032
Deposits with other financial institutions	14				— 13	— 7	
National savings	15·1	+ 35	+ 36	— 25			
Tax reserve certificates	15·2	— 42	— 68	+114			
Import deposits	15·3		— 75			+ 2	
Bank lending	16	— 26	— 20	+ 10	—353	—676	—1,080
Hire purchase debt	17	+ 1	+ 3				
Loans for house purchase	18	+ 9	—				
Other loans	19	+ 88	+ 39				
Marketable government debt:							
Treasury bills	20	—168	—536	+487	+138	+330	— 32
Stocks	21	—413	+405	+506	+ 42	+ 22	+ 2
Local authority debt	22	—184	— 60		— 4	+ 3	
U.K. company and overseas securities:							
Capital issues	23				— 51	— 44	— 70
Other transactions	24	+ 6	—		+122	— 2	
Unit trust units	25						
Identified financial transactions	26	**—465**	**—496**		**+ 94**	**+ 63**	
Unidentified	27	**— 93**	**+119**		**+ 14**	**— 19**	
Total=Financial surplus +/deficit —	28	**—558**	**—377**		**+108**	**+ 44**	

Private sector												
Persons			Industrial and commercial companies			Banks / Other financial institutions (lines 1–5, 27–28)						
						Banks			Other financial institutions			
1968 3rd qtr.	1968 4th qtr.	1969 1st qtr.	1968 3rd qtr.	1968 4th qtr.	1969 1st qtr.	1968 3rd qtr.	1968 4th qtr.	1969 1st qtr.	1968 3rd qtr.	1968 4th qtr.	1969 1st qtr.	Line
+521	+307		+947	+1,031		+128	+156					1
− 56	− 72		+105	+ 111		—	—					2
−286	−277		−620	− 743		− 71	− 83					3
− 29	− 49		−185	− 191		—	—					4
+150	**− 91**		**+247**	**+ 208**		**+ 57**	**+ 73**					5
						+ 13	+ 67	− 86				6
+350	+370								−350	−370		7
—	− 1		− 6	− 13					+ 1	+ 1		8
												9
												10
			− 63	+ 74					+ 8	—		11
− 17	+ 38	+18	− 87	+ 18	+ 38	+108	+ 154	− 154				12
+221	+138	−18	− 30	+ 408	−435	−601	−1,170	− 621	+ 11	+ 71	− 6	13
+196	+310		+ 8	+ 10					−191	−313		14
− 35	− 36	+25										15·1
+ 19	+ 33	−34	+ 20	+ 32	− 83	+ 3	+ 2	+ 3	—	+ 1	—	15·2
				+ 73								15·3
− 42	+ 90	+82	+316	− 375	−414	+ 44	+ 955	+1,406	+ 61	+ 26	− 4	16
+ 4	− 43		− 8	+ 59					+ 3	− 19	− 7	17
−249	−189					+ 10	+ 5	—	+230	+184		18
− 31	+ 45		− 72	− 142		− 1	+ 6	− 10	+ 16	+ 52		19
			+ 9	− 23		+ 18	+ 220	− 443	+ 3	+ 9		20
+ 50	−177					+299	− 234	− 315	+ 22	− 16		21
+ 58	+ 45		+ 4	− 40		+130	− 40	+ 222	− 4	+ 92		22
			−154	− 166	−194	− 16	− 1	− 5	− 61	− 31	−47	23
−208	−111		+ 83	+ 111		+ 25	+ 34	+ 14	+254	+210		24
+ 68	+ 72	+91							− 68	− 72	−91	25
+384	**+584**		**+ 20**	**+ 26**		**+ 32**	**− 2**	**+ 11**	**− 65**	**−175**		26
−234	**−675**		**+227**	**+ 182**		**+ 90**	**+250**					27
+150	**− 91**		**+247**	**+ 208**		**+ 57**	**+ 73**					28

Table W

Banking sector[a]

£ millions[b]
Not seasonally adjusted

	Financial years			Quarter ended					
				1967/68		1968/69			
	1966/67	1967/68	1968/69	Dec.	Mar.	June	Sept.	Dec.	Mar.
Changes in net sterling deposits with the banking sector									
U.K. residents	+235	+1,065	+760	+440	−335	+435	+170	+585	−430
Overseas	− 45	− 290	−105	−120	− 25	− 50	+ 85	− 95	− 45
Total	**+190**	**+ 775**	**+655**	**+320**	**−360**	**+385**	**+255**	**+490**	**−475**
Changes in net sterling deposits of U.K. residents									
Persons	+160	+ 680	+635	+310	+ 5	+295	+220	+140	− 20
Industrial and commercial companies	− 10	+ 395	+ 55	+155	−250	+115	− 30	+405	−435
Financial institutions	+ 50	+ 120	+130	+ 35	− 65	+ 55	+ 10	+ 70	− 5
Total private sector	+200	+1,195	+820	+500	−310	+465	+200	+615	−460
less foreign currency	+ 30	+ 70	+115	+ 60	− 15	+ 25	+ 30	+ 40	+ 20
Total private sector net sterling deposits	+170	+1,125	+705	+440	−295	+440	+170	+575	−480
Total public sector net sterling deposits	+ 65	− 60	+ 55	—	− 40	− 5	—	+ 10	+ 50
Total	**+235**	**+1,065**	**+760**	**+440**	**−335**	**+435**	**+170**	**+585**	**−430**
Changes in sterling assets of the banking sector									
Central government debt[c]	+200	− 270	−275	+165	−860	+ 70	+440	+210	−995
Local government debt[d]	+215	+ 320	+340	+ 50	+135	+ 35	+130	− 35	+210
Nationalised industries	− 10	− 90[e]	+ 20	+ 25	− 75	− 5	+ 20	+ 25	− 20
Other public corporations	+ 5	+ 15	—	− 10	− 20	− 10	+ 5	− 5	+ 10
Sterling lending to the private sector[f]	− 95	+ 605[e]	+495	+ 75	+320	+330	−340	+190	+315
Sterling lending to the overseas sector[g]	+ 35	+ 65	+ 75	+ 15	+ 60	+ 75	− 10	+ 15	− 5
Total of identified sterling assets	+350	+ 645	+655	+320	−440	+495	+245	+400	−485
Difference between identified assets and deposits	−160	+ 130	—	—	+ 80	−110	+ 10	+ 90	+ 10
of which: switching out of sterling into foreign currency[h]	*− 15*	*+ 175*	*+ 90*	*+ 35*	*+ 80*	*− 70*	*+ 55*	*+ 70*	*+ 35*
Total	**+190**	**+ 775**	**+655**	**+320**	**−360**	**+385**	**+255**	**+490**	**−475**
Changes in sterling lending to the private sector									
Persons and unincorporated businesses:									
Advances	−130	+ 195	− 65	+ 10	+ 25	+ 65	− 5	− 60	− 65
Call money	+ 10	+ 25	+ 15	+ 40	+ 10	—	+ 60	− 30	− 15
Other private	+ 25	+ 385	+545	+ 25	+285	+265	−395	+280	+395
Total	**− 95**	**+ 605**	**+495**	**+ 75**	**+320**	**+330**	**−340**	**+190**	**+315**

a As in Table 8 of the annex.
b Rounded to the nearest £5 million.
c Cash transactions only - the figures exclude the exchange of securities of the re-nationalised steel companies for government stock.
d Including central government debt for Northern Ireland.
e Excluding the transfer to the public sector of the steel industry's outstanding borrowing at the time of re-nationalisation.
f Including company securities, but excluding purchases by banks of securities of other banks.
g Including overseas securities.
h Switching out of sterling into foreign currency leads to a decrease in sterling assets with no corresponding decrease in sterling liabilities. Switching out is therefore shown as a positive entry.

Notes on sources and definitions

Sources

The main statistical series used in compiling Tables U and V appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics, Economic Trends* and *Preliminary Estimates of National Income and Balance of Payments 1963 to 1968* (Cmnd. 3983).

Definitions (line numbers refer to Tables U and V)

Public sector The central government, including the National Insurance Funds, the Exchange Equalisation Account and the Issue Department (but not the Banking Department) of the Bank of England; local authorities; the nationalised industries and other public corporations.

Overseas sector As defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1968,* H.M.S.O., August 1968).

Persons (or personal sector) Individuals, unincorporated businesses and private non-profit-making bodies.

Industrial and commercial companies All corporate bodies other than public corporations, banks and other financial institutions.

Banks The banking sector, as in Table 8 of the annex.

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, hire purchase finance companies, Post Office Savings Bank (investment accounts only), special investment departments of trustee savings banks, authorised unit trusts, property unit trusts, special finance agencies (*e.g.* the Agricultural Mortgage Corporation) and certain other institutions which accept deposits but which are not included in the banking sector.

Line 1 Saving The surplus of current income over current expenditure before providing for depreciation and stock appreciation. It includes additions to tax, dividend and interest reserves.

Line 5 Financial surplus/deficit For domestic sectors, the excess/shortfall of saving and net receipts of capital transfers, compared with capital expenditure at home on physical assets, in stocks of goods and in work in progress. A surplus/deficit of the overseas sector is the counterpart of a deficit/surplus on current account in the U.K. balance of payments. For all sectors together, financial surpluses/deficits should add to nil, but they do not because of the residual error in the national income accounts (£ millions: 1966, −150; 1967, +120; 1968, −226; a negative figure indicating an excess of estimated income over estimated expenditure).

Line 6 Net indebtedness of Government to Bank of England, Banking Department The Banking Department's holdings of government debt and of notes and coin – regarded here as government liabilities – less the deposits of the National Loans Fund and the Paymaster General with the Bank.

Line 7 Life assurance and pension funds The increase in persons' net claims in respect of these funds. Figures are included for public sector pension schemes where separate pension funds are not maintained.

Line 8 Government loans Lending (net of repayments) to building societies, industrial companies, etc.; and intergovernment loans (net). Loans to housing associations are in line 18.

Line 9 Gold and foreign exchange reserves Changes in the sterling equivalent of gold and convertible and non-convertible currencies held by the Exchange Equalisation Account.

Line 10 Government transactions with I.M.F. The United Kingdom's subscription to the International Monetary Fund, less changes in the Fund's holding of interest free notes issued by the U.K. Government.

Line 11 Miscellaneous investment overseas (net) U.K. official long-term investment overseas (apart from intergovernment loans); private net long-term investment (inward/outward) other than portfolio investment and the share and loan element of direct and oil investment (included in lines 23 and 24); and part of "miscellaneous capital (net)" in the balance of payments estimates. Some changes in U.K. external liabilities and claims, both in sterling and in foreign currencies, are also included, the most important being transactions in commercial bills between overseas residents and companies; the overseas transactions of some institutions which contribute to the statistics of external liabilities and claims but which are not included in the financial sectors; and changes in official liabilities in foreign currencies arising from drawings on central bank facilities, together with changes in government bonds denominated in Hong Kong dollars.

Line 12 Notes and coin Changes in Bank of England notes – treated here as liabilities of the public sector – in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin. Changes in holdings outside the banking sector have been arbitrarily divided between persons and industrial and commercial companies, but some allowance has been made for movements brought about by the different days of the week on which the periods end.

Line 13 Bank deposits Changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies. The entries for the banking sector are changes in net deposits, *i.e.* current and deposit accounts after allowing for transit items (see the additional notes to Table 8 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items. Changes in negotiable dollar certificates of deposit held outside the banking sector are attributed to overseas residents, and changes in negotiable sterling certificates to U.K. residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks as agents; because of this, the figures in this table will differ from changes derived from Table 8 (2) of the annex.

Line 14 Deposits with other financial institutions Shares and deposits with building societies, and deposits in P.O.S.B. investment accounts, with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with some other institutions.

Line 15·1 National savings All forms of national savings (including accrued interest) other than deposits in P.O.S.B. investment accounts and with special investment departments of trustee savings banks (included in line 14).

Line 15·3 Import deposits Entries for the overseas sector relate to deposits made directly to H.M. Customs by overseas residents on behalf of U.K. companies.

Line 16 Bank lending The banks' advances and overdrafts, money at call and short notice other than to U.K. banks (excluding tax reserve certificates), and transactions in commercial bills, excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22). The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex). The overseas sector figures for call money and commercial bills are taken from returns made by the banks; the figures for commercial bills for other financial institutions from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies; the division of the residual call money figures between persons (*e.g.* stockbrokers) and industrial and commercial companies has been roughly estimated.

Line 17 Hire purchase debt Changes in hire purchase and other instalment credit extended by finance houses and household goods shops (including nationalised gas and electricity undertakings in the public sector as well as companies). Entries relate to capital sums only; unearned finance charges are excluded.

Line 18 Loans for house purchase New loans, less repayments, by building societies, insurance companies, pension funds and local authorities; estimated changes in bank lending; and loans to housing associations by the Government and by public corporations.

Line 19 Other loans Loans between domestic sectors not elsewhere included. The most important of these are by other financial institutions to persons and industrial and commercial companies. The entries also include net trade credit given or received by public corporations and borrowing by the Northern Ireland central government.

Lines 20 and 21 Marketable government debt As defined in the additional notes to Table 3 (1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The changes in overseas holdings of Treasury bills include the sterling counterpart of some inter-central bank transactions. The residual entries for persons in line 21 include any transactions by industrial and commercial companies and unidentified overseas transactions.

Line 22 Local authority debt Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals.

Lines 23 and 24 U.K. company and overseas securities:

Capital issues Issues on the U.K. market only (see Table 14 of the annex).

Other transactions For the overseas sector the entries comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities, taken from the balance of payments estimates for private investment. The entries for the banking sector are the change in the banks' securities other than government stocks and local authority securities. The figures for other financial institutions are taken from their statistical returns: beginning with 1968, commissions and other costs paid by the institutions have been deducted from their transactions. The estimates for industrial and commercial companies relate to their cash payments for the acquisition of subsidiaries (see Table 15 of the annex) and of unincorporated businesses; to their purchases of trade investments; to their acquisition of share and loan capital in overseas companies (part of direct investment abroad); and to their capital issues in overseas centres. The entries for persons are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

Line 25 Unit trust units Purchases less sales of units of authorised unit trusts. It is assumed that all transactions are between unit trust managers and persons.

Line 27 Unidentified The net totals for all sectors together represent the residual error in the national income accounts referred to in the note on line 5. Figures for individual sectors also reflect the balancing item in the balance of payments accounts and deficiencies in the sector division of the national income accounts as well as in the estimates of financial transactions.